

AR49

NINTH
ANNUAL
REPORT
1962

Scurry-Rainbow
Oil Limited





The above Directors and Executive Officers of Scurry-Rainbow Oil Limited were present at a recent Directors' meeting held at the Company's offices in New York.

Back Row, left to right: M. E. Jones, P. S. Kerr, J. Scrimgeour and J. Ellis.

Seated, left to right: L. C. Morrisroe, J. F. Langston, F. E. Taplin, Miss M. A. Morrisroe and E. G. Meschi.

PHOTO BY BACHRACH

All references to "Scurry-Rainbow" and "the Company" in this report, except where the context otherwise indicates, refer to Scurry-Rainbow Oil Limited, its subsidiary and affiliated companies and the following Saskatchewan companies in which Scurry-Rainbow owns a majority share interest — Farmers Mutual Petroleums Ltd., Freeholders Oil Company Limited, Landowners Mutual Minerals Ltd. and Midwest Farmers Oil Limited.

Scurry-Rainbow Oil Limited

539 EIGHTH AVENUE S.W., CALGARY, ALBERTA

INCORPORATED UNDER THE LAWS OF THE PROVINCE OF ALBERTA
FEBRUARY 5, 1954

BOARD OF DIRECTORS

JOHN ELLIS	PAUL S. KERR
JOHN F. LANGSTON	E. GEORGE MESCHI
JOHN SCRIMGEOUR	LAWRENCE C. MORRISROE
FRANK E. TAPLIN, M.B.E.	

EXECUTIVE OFFICERS

F. E. TAPLIN, M.B.E. <i>Chairman of the Board</i>	
J. F. LANGSTON, P.ENG. <i>President</i>	E. G. MESCHI <i>Executive Vice-President</i>
L. C. MORRISROE <i>Vice-President</i>	M. A. MORRISROE <i>Treasurer & Assistant Secretary</i>
M. E. JONES, Q.C. <i>Secretary</i>	

REGISTRAR & TRANSFER AGENTS

PRUDENTIAL TRUST COMPANY LIMITED
Calgary, Toronto, Vancouver
Canada

THE CANADIAN BANK OF COMMERCE TRUST COMPANY
20 Exchange Place, New York, N.Y.

STOCK EXCHANGES

AMERICAN STOCK EXCHANGE
VANCOUVER STOCK EXCHANGE

AUDITORS

PRICE WATERHOUSE & CO.
Calgary, Alberta

ANNUAL MEETING

The 1963 annual meeting of shareholders will be held Saturday, February 16, at 10:00 a.m., at the Head Office of the Company, 539 Eighth Avenue S.W., Calgary, Alberta, Canada. A formal notice of this meeting, together with proxy statement and form of proxy, is being mailed with this report. All shareholders who are unable to attend the meeting are urged to sign and return their proxies as soon as possible.

To The Shareholders

Your Directors are pleased to present the ninth Annual Report of the Company's operations for the fiscal year ended September 30, 1962.

1962 was again a year of record achievement with new highs established in all phases of the Company's operations, as portrayed by the graphic illustrations on page 4. For the first time in the Company's history Scurry-Rainbow's net profit exceeded \$1,000,000.

The following highlights indicate the successful results of this year's operations, with percentage increases over the previous year:

Net profit, after all charges including taxes, increased by 42% to an all time high of \$1,023,000, the equivalent of 53¢ per share.

Net oil and gas sales increased by 39% to \$3,336,000, resulting in a cash profit of \$2,016,000 which is equivalent to \$1.05 per share.

Net oil production increased by 33% to 1,344,000 barrels, equivalent to 3,680 barrels per day. During the last month of the fiscal year, the Company's production reached an all time high of 4,300 barrels of oil per day.

Additional acquisitions of petroleum and natural gas permits and leases increased the Company's net acreage position by 26%. Scurry-Rainbow now owns varying interests in approximately 7,500,000 gross acres of petroleum and natural gas rights (*see land summary on page 6*).

Exploration and development added 15.45 net working interest oil wells to Scurry-Rainbow's productive capacity during the year. Scurry-Rainbow now holds varying interests in 805 oil wells and 57 gas wells in Western Canada (*see well summary on page 11*).

The Saskatchewan Mineral Contracts Alteration Act, referred to in the Company's last Annual Report, expired during the year without any adverse effect upon the Company's mineral holdings in this Province. With this matter successfully resolved and the resulting assurance that the oil industry in Saskatchewan could retain its freedom of operation, Scurry-Rainbow immediately embarked upon an expansion program in this Province.

The Company's activity in both land acquisitions and development drilling exceeded that of the previous year. Scurry-Rainbow acquired 5 Crown petroleum and natural gas permits containing approximately 485,000 acres located along the southern border of Saskatchewan (*see map enclosed*). An additional 70,000 net acres of freehold petroleum and natural gas leases were acquired in the southeast corner of the Province. These acquisitions have further consolidated the Company's land position and have placed Scurry-Rainbow in an excellent position to benefit from future oil discoveries in these areas of Saskatchewan.

The net profits graph on page 4 illustrates Scurry-Rainbow's established growth pattern from 1957 through 1962. It will be noted that the Company recorded an increase of over 450% in net profits for this 5-year period. The steady growth and expansion of the Company are a direct reflection of Management's policies of re-investing annual profits and maintaining a strong cash position, excellent banking relations and a broad and diversified land position. Management intends to pursue these policies in order that the continued growth of the Company may be assured.

The plan reported in the last Annual Report to merge the Company's Alberta industrial properties into a new American company under the management of a group of American investors was terminated. Following a further study of the feasibility surveys, and in view of the fact that the American group were unable to fulfill certain commitments, it was the decision of Management that Scurry-Rainbow retain its industrial properties for future development. Six hundred and twenty acres of this property are located in the heavy industrial and oil refining area of the City of Edmonton. This City is the capital of the Province of Alberta and has recorded a steady pattern of growth over the past fifteen years.

The litigation referred to in the last Annual Report is summarized on pages 15 and 16 in the notes to the Financial Statements.

The trend of the Canadian oil and gas industry during the year 1962 has been one of growth and expansion. The Canadian government's National Oil Policy has resulted in an orderly expansion of markets for Canadian crude oil and natural gas. At this date, there is every indication that this trend will continue into 1963 and that the target level of 800,000 barrels per day, set by the National Energy Board, will be achieved. The results should be another successful year for the producing industry in 1963. Scurry-Rainbow, with its increasing revenues, large land holdings and strong financial position, is well equipped to continue to grow and to expand with the industry.

The Board of Directors would like to take this opportunity to express sincere appreciation for the continued interest and support of its shareholders and, at this time, wishes to thank the Company's employees for their loyal support and co-operation during the past year.

Frank C. Japlin

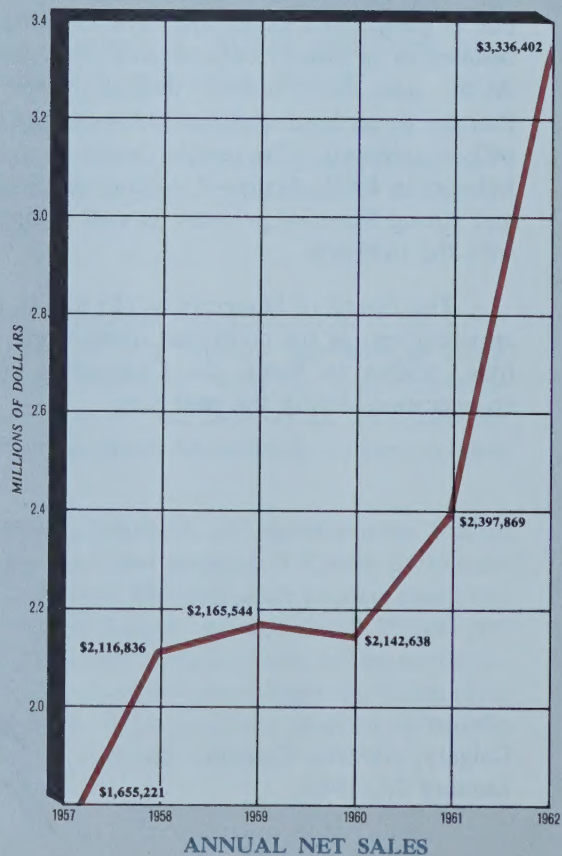
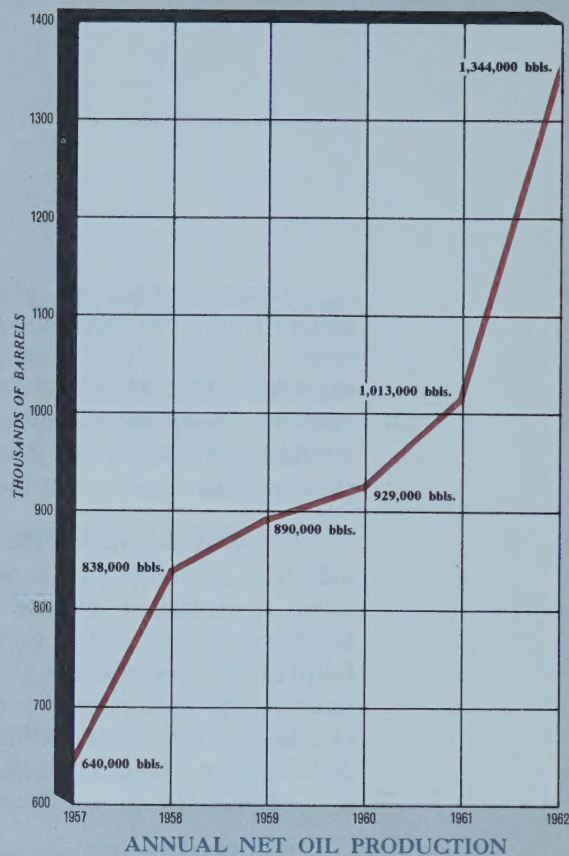
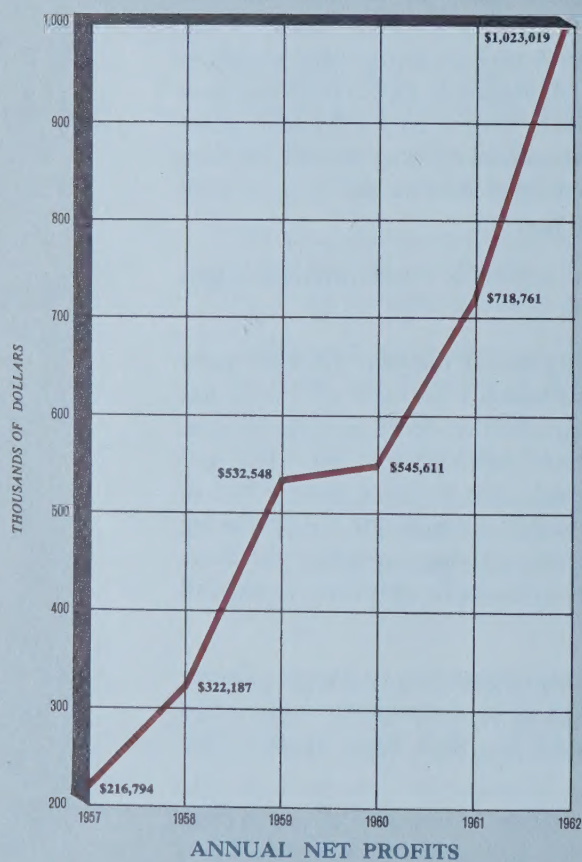
Chairman of the Board.

W. H. Langston

President.

Calgary, Alberta, Canada.
January 15, 1963.

GRAPHIC ILLUSTRATION of the COMPANY'S GROWTH



FINANCIAL

New highs in revenue and cash income were achieved during the year ended September 30, 1962. The results of the year's operations are summarized below, with comparative figures for the previous year shown in parentheses.

Scurry-Rainbow's gross revenue was \$3,517,796 (\$2,717,388) and after deducting production, general and administrative expenses, interest on long term debt and taxes on income, cash income was \$2,016,379 (\$1,614,861). The net profit after all charges including depletion, depreciation and such variables as dry hole costs, abandoned properties and taxes, was \$1,023,019 (\$718,761), an increase of 42%. Based on the share capital issued and outstanding at the year end, these earnings equalled 53¢ per share (37¢ per share).

As at September 30, 1962, cash and Government of Canada bonds totalled \$2,820,972 (\$2,611,217). The Company also has a Letter of Commitment from The Royal Bank of Canada for a \$2,700,000 line of credit which may be exercised at any time up to October 1, 1963. Working capital was \$777,431 (\$564,523) after providing for the repayment of long term debt of \$2,103,680 (\$2,452,656) due within one year.

Scurry-Rainbow Oil Limited and Subsidiary Companies

CASH FLOW FOR THE YEAR ENDED SEPTEMBER 30, 1962

<i>We received from:</i>		
Sales of oil and gas		\$2,331,796
Royalty income		1,004,606
Other sources of income		181,394
		<u>3,517,796</u>
<i>We paid out for:</i>		
Production expenses	\$ 430,887	
Administrative and general expenses	735,937	
Interest on long term debt	289,819	
Taxes on income	44,774	1,501,417
		<u>2,016,379</u>
<i>We received from:</i>		
Bank loans	3,100,000	
Other sources	71,441	3,171,441
		<u>5,187,820</u>
Total funds received		564,523
Add: Working capital at September 30, 1961		<u>5,752,343</u>
<i>We disposed of funds for:</i>		
Reduction of long term debt	2,196,755	
Exploration and development	1,465,317	
Acquisition of property and equipment	1,089,085	
Acquisition of shares in subsidiary companies	223,755	4,974,912
		<u>\$ 777,431</u>
Working capital at September 30, 1962		



Scurry-Rainbow Oil Limited

SUMMARY OF ACREAGE

SEPTEMBER 30, 1962

Reservations and Permits	647,760 gross acres	521,876 net acres
P. & N.G. Leases	* 1,858,153 " "	434,607 " "
Options on P. & N.G. Leases	18,059 " "	18,021 " "
Mineral Titles, Mineral Leases and Undivided Mineral Royalty in Freehold Land	** 1,661,665 " "	1,260,536 mineral acres
Oil and Gas Titles	** 141,432 " "	61,532 royalty acres
Gross Royalty in Freehold Land	306,562 " "	58,758 " "
Gross Overriding Royalty on P. & N.G. Leases ..	353,001 " "	55,604 " "
Gross Overriding Royalty on P. & N.G. Reservations and Permits	2,490,941 " "	394,068 " "

* Duplicate gross acreage on Gross Overriding Royalty on P. & N.G. Leases — 49,763.

** A number of these properties remain subject to prior leases to major oil companies and a substantial number are subject to a development contract with United States Smelting Refining and Mining Company.

Minority interests in subsidiaries — 99,671 gross acres.

Legend

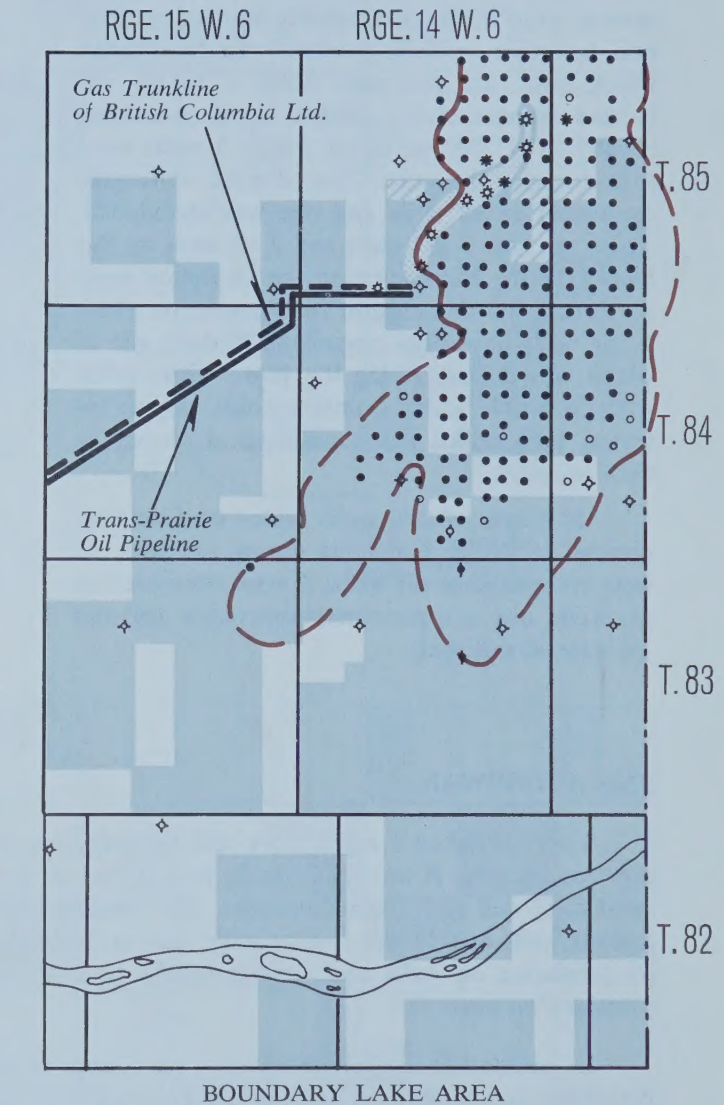
Gas Pipeline —————
 Proposed Gas Line - - - - -
 Oil Pipeline —————
 Proposed Oil Line - - - - -
 Proposed Products Line ———
 Areas in which Scurry-Rainbow has an Interest

EXPLORATION AND DEVELOPMENT

BRITISH COLUMBIA

The extensive development program undertaken in 1961 on the Company's acreage in the Boundary Lake oil field of Northeastern British Columbia has continued at an even greater pace during 1962. Scurry-Rainbow participated in the drilling of 94 wells in this oil field, of which 86 were completed as oil wells, one as a pressure maintenance well and 7 were abandoned. As of September 30, the Company owned a 5% working interest in 121 oil wells and 4 gas wells, and a 9.5% working interest in 3 oil wells in this field. An additional 4 oil wells in which the Company owns a 5% working interest have been completed since September 30. The development program is still continuing and with the productive limits of this oil field still undefined, it is anticipated that a considerable number of additional oil wells will be completed on the Company's acreage. In conjunction with the development drilling program, the Company joined with other companies in the acquisition of further acreage in this area. A 5% working interest was acquired in 22,441 acres of petroleum and natural gas rights, and a 9.5% interest in 1,939 acres. The Company now holds a 5% working interest in over 158,000 acres and a 9.5% working interest in 1,939 acres in the Boundary Lake area.

In the Peejay area of Northeastern British Columbia, Scurry-Rainbow participated in the drilling of 9 wells during the year, resulting in 5 oil wells, one gas well and 3 dry holes. One of the wells, located approximately 6 miles west of the main Peejay trend, resulted in a very significant oil and gas discovery. This well encountered 38 feet of Triassic D Sand, with a 15-foot oil pay section and a 23-foot gas cap. During production tests this well produced oil in excess of 400 barrels per day. A south offset to this well encountered 21 feet of oil pay with a 6-foot gas cap. Two other offsets to this discovery were abandoned. Another exploratory well, located 2½ miles northeast of this discovery, was also abandoned. The other 4 wells were drilled along the main Peejay producing trend and resulted in 3 oil wells and one gas well. Additional development drilling in this area



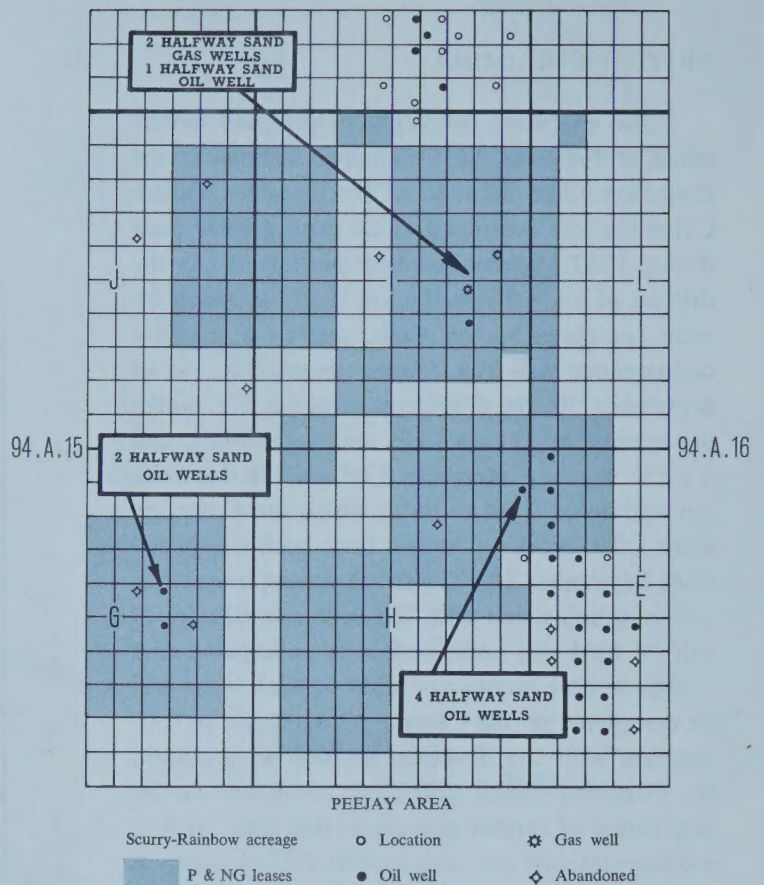
Scurry-Rainbow acreage

- | | | |
|-------------------------------------|----------|-----------|
| Petroleum and Natural Gas Interests | Location | Abandoned |
| Gas Interests | Oil well | Oil field |
| | Gas well | Gas field |

is planned this coming winter. Scurry-Rainbow holds a 22% working interest in 84,000 acres of petroleum and natural gas rights in this area on which 7 oil wells and 2 gas wells have been completed to date (*see map*).

The Company has maintained its acreage holdings in Northeastern British Columbia with several large blocks strategically situated in relation to other producing trends. In the Aitken Creek area, the Company holds a 3.43% net carried interest and a .068% gross overriding royalty in 43,000 acres on which 3 wells were drilled during the year. Two of these wells were completed as oil wells and one was abandoned. There are now 3 gas wells and 2 oil wells on this block. In the Montney area the Company owns a 3% net carried interest in 76,000 acres on which 4 gas wells have been completed to date, one of which was drilled during the year. Three other wells in which Scurry-Rainbow holds varying interests were drilled and abandoned at no cost to the Company.

Of a total of 110 wells drilled on Company acreage in British Columbia during the year, 93 were completed as oil wells, 2 were completed as gas wells, one as a pressure maintenance well and 14 were abandoned.



SASKATCHEWAN

Scurry-Rainbow's exploratory and development activity in the Province of Saskatchewan has again exceeded previous records. A total of 32 wells were drilled on Company acreage, resulting in 29 completed oil wells, one suspended oil well and 2 abandonments. The results of this drilling and exploratory program added 11.5 net working interest wells and 13 net royalty wells, and at September 30, 1962, the Company held varying working interests in 39 producing oil wells and varying royalty interests in 342 oil wells in the Province of Saskatchewan (*see well summary on page 11*).

In addition to its drilling activity, the Company acquired a 100% working interest in over 550,000 acres of petroleum and natural gas rights in this Province. Gross Company holdings in Saskatchewan now exceed 2,300,000 acres, of which 1,648,000 acres include all mines and minerals. The mapped area accompanying this report contains approximately 2,000,000 acres of the Company's holdings in this Province and shows the concentration of a large portion of this acreage in relation to both the producing oil fields and the potash mining area. Scurry-Rainbow also conducted two seismic programs and one core hole program in Southeastern Saskatchewan during the year which greatly assisted in the evaluation of its acreage in the areas covered by these programs. Based on information gained from this work, the Company is presently finalizing plans to participate in the drilling of several wildcat wells. Additional seismic programs are planned for the coming year.

To date, all of the oil production in Southeastern Saskatchewan is being obtained from the relatively shallow Mississippian formation; however, a number of deeper horizons are presently producing oil in Montana and North Dakota (immediately south of Saskatchewan). Future drilling in Saskatchewan will undoubtedly result in oil discoveries in these deeper horizons. Scurry-Rainbow, by reason of its widespread land holdings, is in an excellent position to benefit from any such discoveries.

WORKMAN AREA

During the past year, 15 wells were completed on Company acreage in the Workman area. Scurry-Rainbow owns a 100% working interest in 5 of these wells, a 20% working interest plus a 7½% gross royalty interest in 8 wells, a 16.66% working interest plus a 6¼% gross royalty in one well and a 26.66% working interest plus a 10% royalty interest in the remaining well. Production from 13 of these wells is being obtained from the Upper Hastings zone of the Frobisher beds while the Midale is the producing zone in the other 2 wells. The map of the Workman area shows the Company's holdings and the location of these wells in relation to the other wells in this area.

NOTTINGHAM AREA

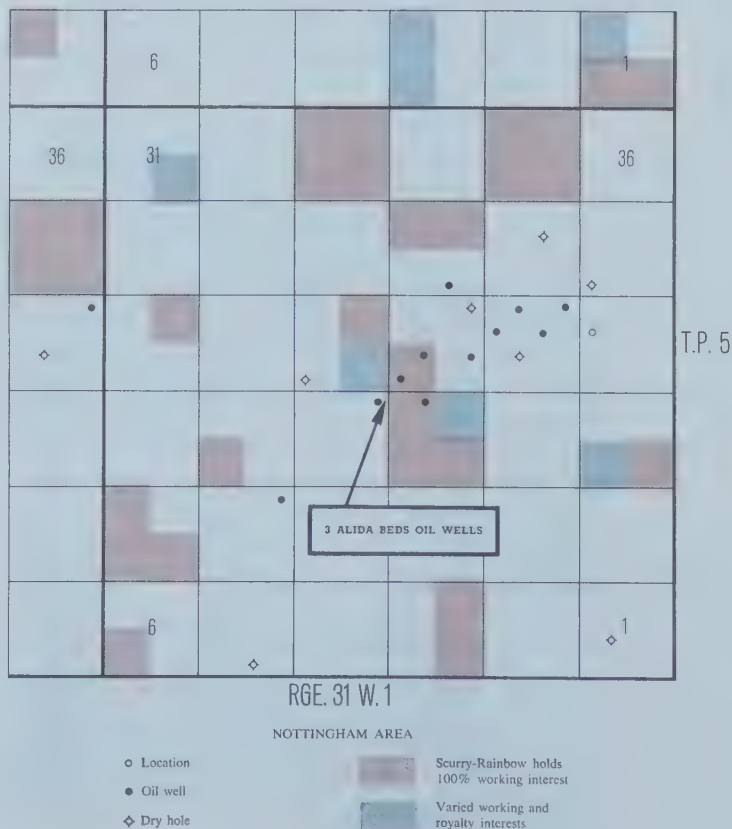
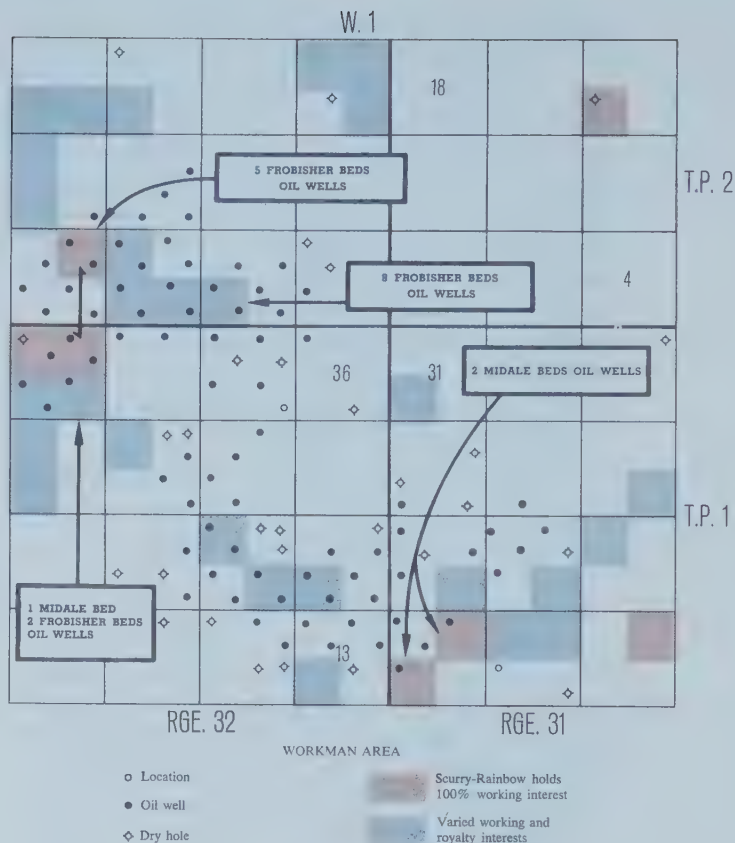
Following the completion of a close control seismic program in the Nottingham area, the Company drilled a successful step-out well directly offsetting a 160-acre petroleum and natural gas lease offered for sale by the Saskatchewan Government. Scurry-Rainbow was successful in purchasing this lease and immediately drilled 2 oil wells on this acreage. Production from these 3 wells is derived from the Frobisher Alida beds and oil pay thickness varies from 22 to 53 feet. As shown on the map of the Nottingham area, the Company owns additional acreage in this area and further drilling is planned during the coming year.

Fourteen other wells were drilled in various fields in Saskatchewan during the year in which the Company holds varying working and royalty interests. Eleven of these wells were completed as oil wells, one was suspended and 2 were abandoned. The results of the drilling operations in this Province added 680 barrels per day to the Company's oil production.

ALBERTA

In the Province of Alberta, the Company has maintained its policy of acquiring acreage along the producing trends and has also continued a modest drilling program. A total of 11 wells were drilled on Company acreage in Alberta, resulting in 3 oil wells, one gas well, one suspended well and 5 abandonments. Seven of these wells were drilled at no cost to the Company.

In the Brazeau River area of the Alberta Foothills belt, Socony Mobil drilled a Mississippian test under a farmout from Scurry-Rainbow and two other companies. The well was drilled to the Mississippian, at an approximate depth of



11,350 feet, at the sole cost of Socony Mobil and at this point Scurry-Rainbow then paid its proportionate share of the cost of deepening this well. The well was bottomed at a total depth of 14,885 feet in the Cambrian. No significant shows were encountered in the deeper horizons and the well was plugged back to the Mississippian and completed as a potential gas well. A maximum flow rate of 3,000,000 cubic feet per day was recorded during production tests. Scurry-Rainbow owns a 22.22% working interest in the well and in 48,000 acres of petroleum and natural gas rights in this area. A seismic program is presently under way to further evaluate this acreage.

Three D-3 reef tests were drilled in the Red Deer area of Central Alberta under farmout agreements whereby Scurry-Rainbow retained a 50% working interest in the wells and the acreage. These wells were all drilled at no cost to Scurry-Rainbow, on isolated lease blocks held by the Company, and all were abandoned. Another D-3 reef test was drilled and abandoned in the Red Deer area. Scurry-Rainbow contributed 27% of the drilling costs to earn a 12.375% working interest in the well and 2,400 lease acres surrounding the well.

PRODUCTION

Scurry-Rainbow's net oil production rose to an all time high of 1,344,000 barrels in 1962. This represents an increase of 33% over the 1,013,000 barrels produced in 1961. Daily average production reached 3,680 barrels as compared with 2,775 barrels for the previous year. The graph on the opposite page indicates the steady growth of the Company's oil production over the past nine years and also indicates the production derived from royalty interests which represent a substantial portion of the Company's oil production. For the year ended September 30, the net royalty income was \$1,004,600, another "million dollar" milestone in the Company's history. Working interest income from oil and gas, after payment of royalties, amounted to \$2,331,800, for a total revenue of \$3,336,400. The Company is sharing in the production of 862 oil and gas wells in Western Canada, the details of which are summarized on the opposite page.

The Canadian Government's announcement of a National Oil Policy in February, 1961, and the resulting incentives for finding greater markets for Canadian crude established a more stable trend for the oil producing industry. This, together with

In the Vulcan area of Southern Alberta, Scurry-Rainbow drilled a Mississippian test to a depth of 6,231 feet. This well is currently suspended pending further testing operations. Scurry-Rainbow contributed 50% of the drilling costs to earn a 21.25% working interest in the well and in 5,751 lease acres surrounding the well. Another Mississippian test was drilled in the Nanton area under a 4,965-acre farmout from Scurry-Rainbow in which the Company retained a 33⅓% working interest. The well was drilled to a total depth of 8,137 feet at no cost to the Company. No commercial oil or gas shows were encountered and the well was abandoned.

Three wells were completed in the Crossfield Cardium oil field on Scurry-Rainbow acreage. The Company holds varying royalty interests in these 3 wells and also owns a 50.9% working interest in one of the wells. This well encountered approximately 9 feet of net oil pay and is currently producing its daily allowable.

As at September 30, 1962, the Company held varying interests in 126 working interest oil and gas wells and 147 royalty oil and gas wells in Alberta (*see well summary on page 11*).

the successful development drilling in both British Columbia and Saskatchewan, has greatly increased the Company's oil production. Daily production rose steadily throughout the year and reached a new high of 4,300 barrels for September, 1962. This increased production, coupled with several crude oil price increases in Alberta and Saskatchewan, accounted for the substantial increase in the Company's production and an even greater increase in total revenues.

Working interest income from natural gas and its by-products, after payment of royalties, amounted to \$155,200, an increase of 120% over the previous year. Four new gas fields in which the Company owns varying interests have been unitized and placed on production this year, the most significant of which were the Crossfield Turner Valley Unit, the Calgary Elkton and Crossfield Units which went on stream in the second quarter of the fiscal year. Further proven gas reserves are scheduled for inclusion in existing gas units during the coming year which will provide for a further increase in the Company's natural gas revenue.

Scurry-Rainbow Oil Limited

OIL AND GAS WELLS

SEPTEMBER 30, 1962

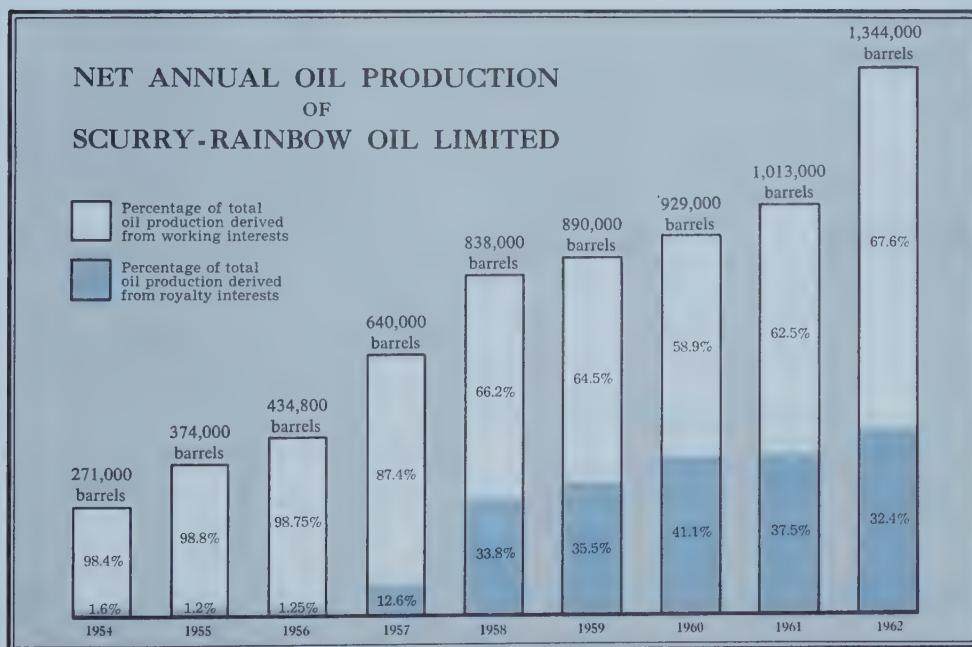
ROYALTY

	OIL WELLS			GAS WELLS		
	SEPT. 30/62		SEPT. 30/61	SEPT. 30/62		SEPT. 30/61
	GROSS WELLS	NET WELLS	NET WELLS	GROSS WELLS	NET WELLS	NET WELLS
Alberta	134	26.55	37.21	13	2.60	2.43
British Columbia	—	—	—	6	0.48	0.47
Saskatchewan	342	212.63	201.53	—	—	—
Manitoba	27	0.93	0.93	—	—	—
TOTAL:	<u>503</u>	<u>240.11</u>	<u>239.67</u>	<u>19</u>	<u>3.08</u>	<u>2.90</u>

WORKING INTEREST

	OIL WELLS			GAS WELLS		
	SEPT. 30/62		SEPT. 30/61	SEPT. 30/62		SEPT. 30/61
	GROSS WELLS	NET WELLS	NET WELLS	GROSS WELLS	NET WELLS	NET WELLS
Alberta	112	47.23	49.45	14	4.37	4.21
British Columbia	134	8.04	2.37	24	3.25	2.97
Saskatchewan	39	21.54	10.04	—	—	—
Manitoba	17	12.12	12.12	—	—	—
TOTAL:	<u>302</u>	<u>88.93</u>	<u>73.98</u>	<u>38</u>	<u>7.62</u>	<u>7.18</u>

- NOTE: (1) A net royalty well represents the right to the equivalent of one-eighth of the production from one well, without deduction for development or operating expenses.
- (2) A net working interest well represents the full working interest ownership in one well or the ownership of fractional working interests in several wells aggregating the equivalent of one well.
- (3) Dually completed wells are counted as two wells.



Scurry-Rainbow Oil Limited

Consolidated Balance Sheet

(with comparative
(CANADIAN

A S S E T S

CURRENT ASSETS:

	1962	1961
Cash	\$ 2,412,947	\$ 2,215,017
Funds on deposit with debenture holders' trustee	—	355,451
Government of Canada bonds, at cost	408,025	396,200
Accounts receivable	448,453	394,979
Notes receivable	161,484	—
Inventories —		
Crude oil, at market	23,267	17,699
Materials and supplies, at cost	81,664	75,677
Prepaid expenses	64,763	20,193
	3,600,603	3,475,216

OTHER ASSETS:

Reservation and drilling deposits	28,113	36,787
Advances and mineral taxes recoverable	41,821	67,578
Shares of a subsidiary company not consolidated	10,000	10,000
Miscellaneous securities, at cost	207,208	239,210
	287,142	353,575

CAPITAL ASSETS, at cost: (Note 1)

Petroleum and natural gas and other mineral interests —		
Producing royalty interests	704,969	620,950
Producing wells and related lease costs	7,868,908	6,923,512
Less — Accumulated depletion	(4,258,283)	(3,879,948)
Capped and suspended wells and related lease costs	774,701	547,161
Non-producing properties	14,641,800	14,015,832
Mining claims, non-producing	387,141	472,779
Production equipment	2,124,544	1,632,830
Other capital assets	1,653,000	1,637,639
Less — Accumulated depreciation	(1,288,030)	(1,102,175)
	22,608,750	20,868,580

DEFERRED CHARGES:

Organization and share issue expense	235,596	235,596
Other	73,143	65,981
	308,739	301,577

APPROVED ON BEHALF OF THE BOARD:

J. F. LANGSTON, Director

L. C. MORRISROE, Director

\$26,805,234	\$24,998,948
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and Subsidiary Companies

t at September 30, 1962

ures for 1961)
LLARS)

LIABILITIES

CURRENT LIABILITIES:

	1962	1961
Accounts payable	\$ 616,495	\$ 339,713
Interest	13,453	28,780
Non-interest bearing debt	89,544	89,544
Long term debt due within one year	2,103,680	2,452,656
	<u>2,823,172</u>	<u>2,910,693</u>

LONG TERM DEBT:

Canadian bank loans at current rate of interest (secured), being repaid at the rate of \$120,450 per month	4,488,800	2,747,500
5½% United States bank loan (secured), repayable at the rate of \$125,000 (U.S.) per quarter (\$1,375,000 U.S.)	1,439,805	1,931,836
5% Mortgage due January 1, 1970, repayable at the rate of \$3,750 per quarter	112,500	127,500
5½% Notes repayable at the rate of \$105,000 per annum	420,000	525,000
5% Sinking Fund Debentures of Scurry Oils Limited redeemed on October 5, 1961	—	575,000
	<u>6,461,105</u>	<u>5,906,836</u>
Less — Amounts due within one year	2,103,680	2,452,656
	<u>4,357,425</u>	<u>3,454,180</u>

MINORITY SHAREHOLDERS' INTERESTS

in subsidiary companies	198,103	224,365
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SHAREHOLDERS' OWNERSHIP:

Share capital — (Note 2)		
Authorized — 3,600,000 shares of a par value of \$3.50 each		
Issued — 1,920,922 shares	6,723,227	6,723,178
Capital surplus (Note 2)	10,207,394	10,213,638
Earned surplus, per statement attached	2,495,913	1,472,894
	<u>19,426,534</u>	<u>18,409,710</u>

LITIGATION (Note 3)

<u>\$26,805,234</u>	<u>\$24,998,948</u>
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The Auditors' Report is attached to this Balance Sheet

Scurry-Rainbow Oil Limited and Subsidiary Companies

Consolidated Statement of Profit and Loss

For the year ended September 30, 1962

(WITH COMPARATIVE FIGURES FOR 1961)

(CANADIAN DOLLARS)

	1962	1961
Operating revenue:		
Sales, less royalties	\$2,331,796	\$1,582,149
Royalty income	1,004,606	815,720
Lease rental income	18,338	15,913
Consulting fee	50,000	50,000
Sundry	17,717	15,297
	<u>3,422,457</u>	<u>2,479,079</u>
Expenses:		
Production	430,887	314,784
Dry hole costs	62,709	53,605
Litigation costs	249,506	116,407
Directors' fees	4,800	4,000
Administrative	426,348	443,518
Other	53,113	78,029
	<u>1,227,363</u>	<u>1,010,343</u>
	<u>2,195,094</u>	<u>1,468,736</u>
Provisions for:		
Depletion	416,902	396,400
Depreciation	225,649	193,487
	<u>642,551</u>	<u>589,887</u>
	<u>1,552,543</u>	<u>878,849</u>
Other credits:		
Profit on sale of investments	19,035	—
Investment income	72,955	86,125
Non-recurring receipts under a development contract	1,625	147,599
Sundry	1,724	1,583
	<u>1,647,882</u>	<u>1,114,156</u>
Other charges:		
Interest on long term debt	289,819	247,726
Properties abandoned	259,599	87,187
Balance of unamortized debenture discount and expense	—	30,195
	<u>549,418</u>	<u>365,108</u>
	<u>1,098,464</u>	<u>749,048</u>
Adjustment of prior years' taxes on income	44,774	(902)
	<u>1,053,690</u>	<u>749,950</u>
Minority shareholders' interests in profits and losses of subsidiaries	30,671	31,189
Net profit for the year	<u><u>\$1,023,019</u></u>	<u><u>\$ 718,761</u></u>

Scurry-Rainbow Oil Limited and Subsidiary Companies

Consolidated Statement of Earned Surplus

For the year ended September 30, 1962

(CANADIAN DOLLARS)

Earned surplus at September 30, 1961	\$1,472,894
Net profit for the year	1,023,019
Earned surplus at September 30, 1962	<u>\$2,495,913</u>

Notes To Financial Statements

1. CAPITAL ASSETS:

It is the policy of the companies to capitalize as property costs geological and geophysical expenses, lease rentals and other carrying charges on non-producing properties.

2. SHARE CAPITAL, SHARE OPTIONS AND CAPITAL SURPLUS:

Changes in issued share capital and capital surplus during the year ended September 30, 1962 are summarized below:

	Number of shares	Share capital (par value)	Capital surplus
Balance at September 30, 1961	1,920,908	\$6,723,178	\$10,213,638
Issued in exchange for additional shares of a subsidiary company	14	49	85
Adjustment on dissolution of a subsidiary			(6,329)
Balance at September 30, 1962	<u>1,920,922</u>	<u>\$6,723,227</u>	<u>\$10,207,394</u>

The consolidated capital surplus consists principally of the excess of the share capital and paid-in surpluses of companies amalgamated with Scurry-Rainbow through share exchanges over the par value of the Scurry-Rainbow shares issued in exchange, and the premium on shares issued for cash.

Options are outstanding at September 30, 1962 granting certain officers and employees and certain former officers and employees the right to purchase 61,895 shares of the Company's capital at prices of \$8.00 and \$15.05 per share. During the fiscal year no options were granted and no options were exercised; an option on 14 shares expired.

The Company has also reserved 16,743 shares for issue in consideration for the transfer to it of certain designated mineral properties pursuant to an agreement dated May 16, 1955. In October 1961 the Company commenced an action in the United States District Court for the Southern district of New York for damages for failure to use best efforts to transfer the mineral properties and for specific performance of the obligation to use best efforts to complete such transfer and for additional damages in lieu of specific performance.

3. LITIGATION:

An action was commenced in May 1961 against the Company and Freeholders Oil Company Limited (in which the Company owns a majority share interest) claiming that the Company did not use its best efforts to cause Freeholders to enter into a development contract and seeking an order of the Court directing Freeholders to grant a development contract on its mineral properties. A claim for damages to that date of \$50,000 has been made and in the event of non-delivery of a development contract on these properties, damages are claimed in the amount of \$5,000,000. An injunction restraining the Company from disposing of any of its shares in Freeholders and that company from disposing of any interest in its mineral properties held at that date is also included in the claim. A second action, similar to the first, was commenced in August 1962 in respect of the mineral properties acquired by Freeholders since the first action was initiated; this latter action also petitioned the Court for an order appointing a receiver to receive the rents, profits, royalties and income from the properties referred to therein until final disposition of this action. Management is of the opinion that these actions will not succeed and counsel has been instructed to defend them and to ask for dismissal with costs.

In July 1962 judgment was received in a lawsuit brought by Farmers Mutual Petroleum Ltd. (in which Scurry-Rainbow owns a majority share interest) relating to a development contract covering its mineral titles in which it claimed damages for drainage from certain undeveloped properties, sought an order declaring that the contract had been rescinded as at May 13, 1959 for failure of the other party to fulfil its terms and asked for an interpretation of a rental clause. Under the judgment, the Court awarded damages to Farmers Mutual of \$74,300, declared the contract to be still in force and ruled that the method of computing rentals used by the other party is correct, on the basis of which additional rental income of approximately \$132,800 would be receivable by Farmers Mutual. However, as Farmers Mutual is appealing this judgment, and the amounts awarded by the Court have therefore not been received, the financial statements do not include the damages or the additional rental income.

The company's titles to five producing properties are in litigation. Royalty income from one of these properties amounting to \$59,000 which has not been received pending the outcome of litigation has not been included in the financial statements. Royalty income from four properties has been received and included in the financial statements. The maximum liability for refund of royalty income received if such title litigation is unsuccessful would be approximately \$60,000.

Auditors' Report

To the Shareholders of

SCURRY-RAINBOW OIL LIMITED:

We have examined the consolidated balance sheet of Scurry-Rainbow Oil Limited and subsidiary companies as at September 30, 1962 and the consolidated statements of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the combined companies as at September 30, 1962 and the consolidated results of operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 17, 1962

PRICE WATERHOUSE & CO.
Chartered Accountants



Ninth
Annual
Report
*for the year ended
September 30th,
1962*